
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 8, 2023

PDF SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

000-31311
(Commission File Number)

Delaware
(State or Other Jurisdiction of Incorporation)

25-1701361
(I.R.S. Employer Identification No.)

2858 De La Cruz Boulevard
Santa Clara, CA 95050
(Address of principal executive offices, with zip code)

(408) 280-7900
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00015 par value	PDFS	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Item 2.02. Results of Operations and Financial Condition.

On August 8, 2023, PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the second quarter ended June 30, 2023. The Company also posted on the Investors section of its website (www.pdf.com) a management report with regard to the second quarter ended June 30, 2023. Copies of the press release and management report are attached to this report as Exhibits 99.1 and 99.2, respectively. Information on the website is not, and will not be deemed, a part of this report or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated August 8, 2023, regarding financial results and certain other information related to the second quarter ended June 30, 2023.
99.2	Management Report by PDF Solutions, Inc. as of August 8, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PDF SOLUTIONS, INC. (Registrant)

By: /s/ Adnan Raza
Adnan Raza
EVP, Finance, and Chief Financial Officer (principal financial and accounting officer)

Dated: August 8, 2023

PDF/SOLUTIONS™

2858 De La Cruz Boulevard, Santa Clara CA 95050 USA
+1.408.280.7900 www.pdf.com

News Release

Company Contacts:

Adnan Raza
Chief Financial Officer
Tel: (408) 516-0237
Email: adnan.raza@pdf.com

Sonia Segovia
Investor Relations
Tel: (408) 938-6491
Email: sonia.segovia@pdf.com

PDF Solutions® Reports Second Quarter 2023 Results

Santa Clara, CA, August 8, 2023, – PDF Solutions, Inc. (Nasdaq: PDFS), a leading provider of comprehensive data solutions for the semiconductor ecosystem, today announced financial results for its second quarter ended June 30, 2023.

Highlights of Second Quarter 2023 Financial Results

- **Record quarterly revenues of \$41.6 million, up 20% over last year's comparable quarter**
- **GAAP gross margin of 70% and Non-GAAP gross margin of 74%**
- **GAAP diluted earnings per share (EPS) of \$0.17 and non-GAAP diluted EPS of \$0.19**

Total revenues for the second quarter of 2023 were \$41.6 million, compared to \$40.8 million for the first quarter of 2023 and \$34.7 million for the second quarter of 2022. Analytics revenue for the first quarter of 2023 was \$37.1 million, compared to \$36.3 million for the first quarter of 2022 and \$31.1 million for the second quarter of 2022. Integrated Yield Ramp revenue for the first quarter of 2023 was \$4.5 million, compared to \$4.4 million for the first quarter of 2022 and \$3.6 million for the second quarter of 2022.

GAAP gross margin for the second quarter of 2023 was 70%, compared to 71% for the first quarter of 2023 and 65% for the second quarter of 2022.

Non-GAAP gross margin for the second quarter of 2023 was 74%, compared to 75% for the first quarter of 2023 and 69% for the second quarter of 2022.

On a GAAP basis, net income for the second quarter of 2023 was \$6.8 million, or \$0.17 per diluted share, compared to a net income of \$0.4 million, or \$0.01 per diluted share, for the first quarter of 2023, and a net loss of \$1.1 million, or (\$0.03) per diluted share, for the second quarter of 2022.

Non-GAAP net income for the second quarter of 2023 was \$7.5 million, or \$0.19 per diluted share, compared to a non-GAAP net income of \$7.3 million, or \$0.19 per diluted share, for the first quarter of 2023, and non-GAAP net income of \$4.3 million, or \$0.11 per diluted share, for the second quarter of 2022.

Cash, cash equivalents and short-term investments as of June 30, 2023 were \$124.0 million.

Financial Outlook and Recent Accomplishments

Based on the trends we are seeing for the rest of the year, we expect 2023 revenue growth rate to be lower double digit percent on a year-over-year basis.

“Thanks to all our employees, contractors, and customers for our continued performance. We are pleased with our performance so far in the year compared to last year and the level of deal activity we see in our pipeline” said John Kibarian, CEO and President.

Conference Call

As previously announced, PDF Solutions will discuss these results on a live conference call beginning at 2:00 p.m. Pacific Time / 5:00 p.m. Eastern Time today. To participate on the live call, analysts and investors should pre-register at: <https://register.vevent.com/register/BI369bebeef9a54fe19863d7f6e8803f5a>. Registrants will receive dial-in information and a unique passcode to access the call. We encourage participants to dial-in into the call ten minutes ahead of scheduled time. The teleconference will also be webcast simultaneously on the Company's website at <https://ir.pdf.com/webcasts>. A replay of the conference call webcast will be available after the call on the Company's investor relations website. A copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the comparable GAAP measures, which non-GAAP measures may be used periodically by PDF Solutions' management when discussing financial results with investors and analysts, will also be available on PDF Solutions' website at <http://www.pdf.com/press-releases> following the date of this release.

Second Quarter 2023 Financial Commentary Available Online

A Management Report reviewing the Company's second quarter 2023 financial results will be furnished to the Securities and Exchange Commission on Form 8-K and published on the Company's website at <http://ir.pdf.com/financial-reports>. Analysts and investors are encouraged to review this commentary prior to participating in the conference call.

Information Regarding Use of Non-GAAP Financial Measures

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures. Non-GAAP gross profit and margin exclude stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income excludes the effects of certain non-recurring items, expenses related to an arbitration proceeding for a disputed contract with a customer, stock-based compensation expense, amortization of acquired technology and other acquired intangible assets, acquisition-related costs and their related income tax effects, as applicable, as well as adjustments for the valuation allowance for deferred tax assets. These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental information to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of expenses related to an arbitration proceeding for a disputed contract with a customer and acquisition-related costs) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may differ from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Since management uses these non-GAAP financial measures internally to measure profitability and performance, PDF Solutions has included these non-GAAP measures to give investors an opportunity to see the Company's financial results as viewed by management. A reconciliation of the comparable GAAP financial measures to the non-GAAP financial measures is provided at the end of the Company's condensed consolidated financial statements presented below.

Forward-Looking Statements

The press release and the planned conference call include forward-looking statements regarding the Company's future expected business performance and financial results, including expectations about total revenue growth that are subject to future events and circumstances. Actual results could differ materially from those expressed in these forward-looking statements. Risks and uncertainties that could cause results to differ materially include, but are not limited to, risks associated with: expectations about the effectiveness of our business and technology strategies; expectations regarding recent and future acquisitions; current semiconductor industry trends; expectations of continued adoption of the Company's solutions by new and existing customers; project milestones or delays and performance criteria achieved; cost and schedule of new product development; the impact of global economic trends and rising inflation and interest rates; the provision of technology and services prior to the execution of a final contract; the continuing impact of the coronavirus (COVID-19) on the semiconductor industry and on the Company's operations or supply and demand for the Company's products; supply chain disruptions; the success of the Company's strategic growth opportunities and partnerships; the Company's ability to successfully integrate acquired businesses and technologies; whether the Company can successfully convert backlog into revenue; customers' production volumes under contracts that provide Gainshare royalties; possible impacts from the evolving trade regulatory environment and geopolitical tensions; our ability to obtain additional financing if needed; and other risks set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its Annual Report on Form 10-K for the year ended December 31, 2022, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K and amendments to such reports. The forward-looking statements made in the conference call are made as of the date hereof, and PDF Solutions does not assume any obligation to update such statements nor the reasons why actual results could differ materially from those projected in such statements.

About PDF Solutions

PDF Solutions (NASDAQ: PDFS) provides comprehensive data solutions designed to empower organizations across the semiconductor ecosystem to improve the yield and quality of their products and operational efficiency for increased profitability. The Company's products and services are used by Fortune 500 companies across the semiconductor ecosystem to achieve smart manufacturing goals by connecting and controlling equipment, collecting data generated during manufacturing and test operations, and performing advanced analytics and machine learning to enable profitable, high-volume manufacturing.

Founded in 1991, PDF Solutions is headquartered in Santa Clara, California, with operations across North America, Europe, and Asia. The Company (directly or through one or more subsidiaries) is an active member of SEMI, INEMI, TPCA, IPC, the OPC Foundation, and DMDII. For the latest news and information about PDF Solutions or to find office locations, visit <https://www.pdf.com>.

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PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands)

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100,360	\$ 119,624
Short-term investments	23,678	19,557
Accounts receivable, net	61,451	42,164
Prepaid expenses and other current assets	18,864	12,063
Total current assets	<u>204,353</u>	<u>193,408</u>
Property and equipment, net	42,990	40,174
Operating lease right-of-use assets, net	5,389	6,002
Goodwill	14,123	14,123
Intangible assets, net	16,298	18,055
Deferred tax assets, net	76	64
Other non-current assets	7,043	6,845
Total assets	<u>\$ 290,272</u>	<u>\$ 278,671</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,279	\$ 6,388
Accrued compensation and related benefits	10,994	16,948
Accrued and other current liabilities	5,497	5,581
Operating lease liabilities – current portion	1,538	1,412
Deferred revenues – current portion	29,915	26,019
Billings in excess of recognized revenues	1,854	1,852
Total current liabilities	<u>52,077</u>	<u>58,200</u>
Long-term income taxes payable	2,430	2,622
Non-current operating lease liabilities	5,260	5,932
Other non-current liabilities	6,335	1,905
Total liabilities	<u>66,102</u>	<u>68,659</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	459,078	447,421
Treasury stock at cost	(138,278)	(133,709)
Accumulated deficit	(93,960)	(101,150)
Accumulated other comprehensive loss	(2,670)	(2,550)
Total stockholders' equity	<u>224,170</u>	<u>210,012</u>
Total liabilities and stockholders' equity	<u>\$ 290,272</u>	<u>\$ 278,671</u>

PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended			Six months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenues:					
Analytics	\$ 37,134	\$ 36,326	\$ 31,117	\$ 73,460	\$ 61,543
Integrated yield ramp	4,467	4,433	3,551	8,900	6,623
Total revenues	<u>41,601</u>	<u>40,759</u>	<u>34,668</u>	<u>82,360</u>	<u>68,166</u>
Costs and Expenses:					
Costs of revenues	12,369	11,904	12,042	24,273	23,571
Research and development	12,264	13,051	13,374	25,315	27,463
Selling, general, and administrative	14,766	15,645	9,770	30,411	20,609
Amortization of acquired intangible assets	326	325	314	651	628
Interest and other expense (income), net	(1,071)	(911)	(991)	(1,982)	(1,301)
Income (loss) before income tax expense (benefit)	2,947	745	159	3,692	(2,804)
Income tax expense (benefit)	(3,888)	390	1,306	(3,498)	2,493
Net income (loss)	<u>\$ 6,835</u>	<u>\$ 355</u>	<u>\$ (1,147)</u>	<u>\$ 7,190</u>	<u>\$ (5,297)</u>
Net income (loss) per share:					
Basic	<u>\$ 0.18</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.19</u>	<u>\$ (0.14)</u>
Diluted	<u>\$ 0.17</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.18</u>	<u>\$ (0.14)</u>
Weighted average common shares used to calculate net income (loss) per share:					
Basic	<u>37,859</u>	<u>37,737</u>	<u>37,028</u>	<u>37,799</u>	<u>37,316</u>
Diluted	<u>39,076</u>	<u>38,859</u>	<u>37,028</u>	<u>38,968</u>	<u>37,316</u>

PDF SOLUTIONS, INC.

RECONCILIATION OF GAAP GROSS MARGIN TO NON-GAAP GROSS MARGIN (UNAUDITED)

(In thousands)

	Three months ended			Six months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
GAAP					
Total revenues	\$ 41,601	\$ 40,759	\$ 34,668	\$ 82,360	\$ 68,166
Costs of revenues	12,369	11,904	12,042	24,273	23,571
GAAP gross profit	\$ 29,232	\$ 28,855	\$ 22,626	\$ 58,087	\$ 44,595
GAAP gross margin	70 %	71 %	65 %	71 %	65 %
Non-GAAP					
GAAP gross profit	\$ 29,232	\$ 28,855	\$ 22,626	\$ 58,087	\$ 44,595
Adjustments to reconcile GAAP to non-GAAP gross margin:					
Stock-based compensation expense	938	964	655	1,902	1,383
Amortization of acquired technology	553	553	553	1,106	1,106
Non-GAAP gross profit	\$ 30,723	\$ 30,372	\$ 23,834	\$ 61,095	\$ 47,084
Non-GAAP gross margin	74 %	75 %	69 %	74 %	69 %

PDF SOLUTIONS, INC.

RECONCILIATION OF GAAP NET INCOME (LOSS) TO NON-GAAP NET INCOME (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended			Six months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
GAAP net income (loss)	\$ 6,835	\$ 355	\$ (1,147)	\$ 7,190	\$ (5,297)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:					
Stock-based compensation expense	4,678	4,884	3,872	9,562	9,425
Amortization of acquired technology under costs of revenues	553	553	553	1,106	1,106
Amortization of other acquired intangible assets	326	325	314	651	628
Expenses of arbitration (1)	166	2,133	36	2,299	487
Acquisition-related costs (2)	176	—	—	176	—
Tax impact of valuation allowance for deferred tax assets and reconciling items (3)	(5,238)	(980)	664	(6,218)	1,601
Non-GAAP net income	\$ 7,496	\$ 7,270	\$ 4,292	\$ 14,766	\$ 7,950
GAAP net income (loss) per diluted share	\$ 0.17	\$ 0.01	\$ (0.03)	\$ 0.19	\$ (0.14)
Non-GAAP net income per diluted share	\$ 0.19	\$ 0.19	\$ 0.11	\$ 0.38	\$ 0.21
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	39,076	38,859	37,028	38,968	37,316
Weighted average common shares used in non-GAAP net income per diluted share calculation	39,076	38,859	37,615	38,968	38,096

- (1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.
- (2) Acquisition-related costs are incremental expenses related to the business or asset acquisition transaction(s). These expenses may include consulting, legal and other fees. For the three and six months ended June 30, 2023, the charges were related to the acquisition of Lantern Machinery Analytics, Inc.
- (3) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or research and development credits after the valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTAs on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.



Q2 2023
Management Report
August 8, 2023

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■ Q2 2023 Non-GAAP Results

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■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' Second Quarter 2023 financial results press release available on its Investor Relations website at <http://www.pdf.com/financial-news>. These remarks represent management's current views of the Company's financial and operational performance and are provided to give investors and analysts further insight into its performance in advance of the earnings call webcast. The Company disclaims any duty to update this information for future events.

PDF Solutions Reports Second Quarter 2023 Results

Q2 2023 Key Metrics

Revenue: \$41.6M

GAAP Gross Margin: 70%

Non-GAAP Gross Margin: 74%

GAAP Diluted EPS: \$0.17

Non-GAAP Diluted EPS: \$0.19

Operating Cash Flow: (\$5.6M)

Cash Used for Capital Expenditures: \$3.1M

FINANCIAL RESULTS SUMMARY

- Q2 2023 Total revenues of \$41.6M, up 2% over Q1 2023, and up 20% over Q2 2022.
- Q2 2023 Analytics revenue of \$37.1M, up 2% over Q1 2023, and up 19% over Q2 2022.
- Q2 2023 Integrated yield ramp revenue of \$4.5M, up 1% over Q1 2023, and up 26% over Q2 2022.

Key Financial & Operating Metrics – Quarterly

(in thousands, except share data, which is in millions, and percentages)

	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Revenues	\$ 41,601	\$ 40,759	\$ 40,523	\$ 39,860	\$ 34,668
GAAP Gross Margin	70%	71%	71%	69%	65%
Non-GAAP Gross Margin	74%	75%	74%	72%	69%
Outstanding Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Cash Flow	(\$ 5,633)	(\$ 982)	\$ 24,275	\$ 1,403	\$ 3,624
Cash Used for Capital Expenditures (CAPEX)	\$ 3,099	\$ 2,902	\$ 1,725	\$ 2,118	\$ 2,822
\$ Shares Repurchased	\$ -	\$ -	\$ -	\$ -	\$ 16,693
Weighted Average Common Shares Outstanding	37.9	37.7	37.4	37.2	37.0
Effective Tax Rate Expense (Benefit)	(132)%	52%	55%	37%	821%

Key Financial & Operating Metrics – Year to Date

(in thousands, except share data, which is in millions, and percentages)

	Six Months Ended June 30,		
	2023	2022	2021
Revenues	\$ 82,360	\$ 68,166	\$ 51,619
GAAP Gross Margin	71%	65%	58%
Non-GAAP Gross Margin	74%	69%	63%
Outstanding Debt	\$ -	\$ -	\$ -
Operating Cash Flow	(\$ 6,615)	\$ 6,620	(\$ 195)
Cash Used for CAPEX	\$ 6,001	\$ 4,587	\$ 1,121
\$ Shares Repurchased	\$ -	\$ 22,471	\$ 4,523
Weighted Average Common Shares Outstanding	37.8	37.3	37.0
Effective Tax Rate Expense (Benefit)	(95)%	89%	9%

Revenue by Geographic Area - Quarterly

(Dollars in thousands)

	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
United States	\$ 22,339	\$ 23,274	\$ 20,756	\$ 18,292	\$ 17,086
% of Total	54%	57%	51%	46%	49%
China	\$ 7,421	\$ 6,956	\$ 6,280	\$ 9,555	\$ 4,539
% of Total	18%	17%	16%	24%	13%
Rest of the world	\$ 11,841	\$ 10,529	\$ 13,487	\$ 12,013	\$ 13,043
% of Total	28%	26%	33%	30%	38%
Total revenues	\$ 41,601	\$ 40,759	\$ 40,523	\$ 39,860	\$ 34,668

Revenue by Geographic Area - Year to Date

(Dollars in thousands)

	Six Months Ended June 30,		
	2023	2022	2021
United States	\$ 45,613	\$ 34,577	\$ 20,651
% of Total	55%	51%	40%
China	\$ 14,378	\$ 8,659	\$ 6,028
% of Total	18%	13%	12%
Rest of the world	\$ 22,369	\$ 24,930	\$ 24,940
% of Total	27%	36%	48%
Total revenues	\$ 82,360	\$ 68,166	\$ 51,619

GAAP / Non-GAAP Presentation

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), the Company also provides certain non-GAAP financial measures. Non-GAAP gross profit excludes stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income (loss) excludes the effects of certain non-recurring items, expenses related to an arbitration proceeding for a disputed customer contract, acquisition-related costs, stock-based compensation expense, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjustments for the valuation allowance for deferred tax assets. These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental measures to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of expenses related to an arbitration proceeding for a disputed customer contract, and acquisition related costs) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Management uses these non-GAAP financial measures internally to measure profitability and performance; these non-GAAP measures are presented here to give investors an opportunity to see the Company's financial results as viewed by management. A detailed reconciliation of the adjustments made to comparable GAAP measures is included herein.

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income

Quarterly

(in thousands, except for per share amounts)

	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
GAAP net income (loss)	\$ 6,835	\$ 355	\$ 483	\$ 1,385	(\$ 1,147)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:					
Stock-based compensation expense	4,678	4,884	5,088	5,136	3,872
Amortization of acquired technology	553	553	553	553	553
Amortization of other acquired intangible assets	326	325	325	318	314
Expenses of arbitration (1)	166	2,133	852	556	36
Acquisition-related costs (2)	176	—	—	—	—
Tax impact of valuation allowance for deferred tax assets and reconciling items (3)	(5,238)	(980)	98	(373)	664
Non-GAAP net income	\$ 7,496	\$ 7,270	\$ 7,399	\$ 7,575	\$ 4,292
GAAP net income (loss) per diluted share	\$ 0.17	\$ 0.01	\$ 0.01	\$ 0.04	(\$ 0.03)
Non-GAAP net income per diluted share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.11
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	39,076	38,859	38,276	38,054	37,028
Weighted average common shares used in Non-GAAP net income per diluted share calculation	39,076	38,859	38,276	38,054	37,615

- (1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.
- (2) Acquisition-related costs are incremental expenses related to a business or asset acquisition transaction(s). These expenses may include consulting, legal and other fees. For the three months ended June 30, 2023, the charges were related to the acquisition of Lantern Machinery Analytics, Inc.
- (3) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or research and development credits after the valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTAs on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (Loss)

Year to Date

(in thousands, except for per share amounts)

	Six Months Ended June 30,		
	2023	2022	2021
GAAP net income (loss)	\$ 7,190	(\$ 5,297)	(\$ 12,081)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:			
Stock-based compensation expense	9,562	9,425	6,111
Amortization of acquired technology	1,106	1,106	1,071
Amortization of other acquired intangible assets	651	628	628
Expenses of arbitration (1)	2,299	487	853
Acquisition-related costs (2)	176	—	—
Tax impact of valuation allowance for deferred tax assets and reconciling items (3)	(6,218)	1,601	1,218
Non-GAAP net income (loss)	\$ 14,766	\$ 7,950	(\$ 2,200)
GAAP net income (loss) per diluted share	\$ 0.19	(\$ 0.14)	(\$ 0.33)
Non-GAAP net income (loss) per diluted share	\$ 0.38	\$ 0.21	(\$ 0.06)
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	38,968	37,316	36,989
Weighted average common shares used in Non-GAAP net income (loss) per diluted share calculation	38,968	38,096	36,989

- (1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.
- (2) Acquisition-related costs are incremental expenses related to the business or asset acquisition transaction(s). These expenses may include consulting, legal and other fees. For the six months ended June 30, 2023, the charges were related to the acquisition of Lantern Machinery Analytics, Inc.
- (3) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or research and development credits after the valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTAs on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.

Reconciliation of GAAP to Non-GAAP Spending by Function

Quarterly

(in thousands)

	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Cost of Revenue - GAAP	\$ 12,369	\$ 11,904	\$ 11,791	\$ 12,545	\$ 12,042
Adjustments to reconcile GAAP Cost of Revenue to Non-GAAP Cost of Revenue:					
Stock-based compensation expense	(938)	(964)	(737)	(854)	(655)
Amortization of acquired technology	(553)	(553)	(553)	(553)	(553)
Cost of Revenue - Non-GAAP	\$ 10,878	\$ 10,387	\$ 10,501	\$ 11,138	\$ 10,834
Research & Development - GAAP	\$ 12,264	\$ 13,051	\$ 14,360	\$ 14,303	\$ 13,374
Adjustments to reconcile GAAP R&D to Non-GAAP R&D:					
Stock-based compensation expense	(1,619)	(1,794)	(2,233)	(2,180)	(1,810)
Research & Development - Non-GAAP	\$ 10,645	\$ 11,257	\$ 12,127	\$ 12,123	\$ 11,564
Selling, General, & Administrative - GAAP	\$ 14,766	\$ 15,645	\$ 12,724	\$ 12,005	\$ 9,770
Adjustment to reconcile GAAP SG&A to Non-GAAP SG&A:					
Stock-based compensation expense	(2,121)	(2,126)	(2,118)	(2,102)	(1,407)
Expenses of arbitration (1)	(166)	(2,133)	(852)	(556)	(36)
Acquisition-related costs (2)	(176)	—	—	—	—
Selling, General, & Administrative - Non-GAAP	\$ 12,303	\$ 11,386	\$ 9,754	\$ 9,347	\$ 8,327

(1) Represents expenses related to an arbitration proceeding over a disputed contract with a customer, which expenses are expected to continue until the arbitration is resolved.

(2) Acquisition-related costs are incremental expenses related to a business or asset acquisition transaction(s). These expenses may include consulting, legal and other fees. For the three months ended June 30, 2023, the charges were related to the acquisition of Lantern Machinery Analytics, Inc.

Reconciliation of GAAP to Non-GAAP Spending by Function

Year to Date

(in thousands)

	Six Months Ended June 30,		
	2023	2022	2021
Cost of Revenue - GAAP	\$ 24,273	\$ 23,571	\$ 20,848
Adjustments to reconcile GAAP Cost of Revenue to Non-GAAP Cost of Revenue:			
Stock-based compensation expense	(1,902)	(1,383)	(1,190)
Amortization of acquired technology	(1,106)	(1,106)	(1,071)
Cost of Revenue - Non-GAAP	\$ 21,265	\$ 21,082	\$ 18,587
Research & Development - GAAP	\$ 25,315	\$ 27,463	\$ 21,905
Adjustments to reconcile GAAP R&D to Non-GAAP R&D:			
Stock-based compensation expense	(3,413)	(4,978)	(2,714)
Research & Development - Non-GAAP	\$ 21,902	\$ 22,485	\$ 19,191
Selling, General, & Administrative - GAAP	\$ 30,411	\$ 20,609	\$ 18,874
Adjustment to reconcile GAAP SG&A to Non-GAAP SG&A:			
Stock-based compensation expense	(4,247)	(3,064)	(2,207)
Expenses of arbitration (1)	(2,299)	(487)	(853)
Acquisition-related costs (2)	(176)	—	—
Selling, General, & Administrative - Non-GAAP	\$ 23,689	\$ 17,058	\$ 15,814

(1) Represents expenses related to an arbitration proceeding over a disputed contract with a customer, which expenses are expected to continue until the arbitration is resolved.

(2) Acquisition-related costs are incremental expenses related to a business or asset acquisition transaction(s). These expenses may include consulting, legal and other fees. For the six months ended June 30, 2023, the charges were related to the acquisition of Lantern Machinery Analytics, Inc.